STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of American Automobile Insurance Company as of December 31, 2007

ORDER

After full consideration and review of the report of the financial examination of American Automobile Insurance Company for the period ended December 31, 2007, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER American Automobile Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this October 7, 2009.

John M. Huff, Director
Department of Insurance, Financial Institutions and Professional Registration

REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

AMERICAN AUTOMOBILE INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Novato, California
July 24, 2009

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, Financial Condition (E) Committee

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Secretary, Midwestern Zone, NAIC

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial Institutions
and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

American Automobile Insurance Company

hereinafter referred to as such, as American Auto, AAIC, or as the Company. Its administrative office is located at 777 San Marin Drive, Novato, California, 94998, telephone number (415) 899-2000. This examination began on December 22, 2008, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of American Auto was made as of December 31, 2003, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2004, through December 31, 2007, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating. This examination was performed in conjunction with the examination conducted by the California Department of Insurance (DOI) of Fireman's Fund Insurance Company (FFIC), Associated Indemnity Corporation, San Francisco Reinsurance Company, and Vintage Insurance Company.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about corporate governance, identifying and assessing inherent risks, and evaluating the Company's controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The key activities and sub-activities identified in our examination of American Auto, were as follows:

Key Activity	Sub-Activities	
INVESTMENTS	• Purchases and Sales • Valuation and Reporting • Safeguarding of Assets	• Identification of Impaired Securities • Compliance with Laws and Regulations
PREMIUMS	• Premium Collection • Premium Billing • Premium Recording	• Recording of Premium Receivables • Recording of Unearned Premiums • Recording of Commissions Expense
UNDERWRITING	• Underwriting Strategy • Application of Standards / Guidelines	• Data Accumulation (Input of Application Data and Rates)
CLAIMS HANDLING	• New Claim Set-Up • Claim Settlement • Case Reserves	• Claim Disbursements • Loss Adjustment Expenses • Subrogation
RESERVES	• Reserve Calculations • Recording and Reporting of Reserves	• Accumulation of Data for Reserving • Actuarial Assumptions and Methodologies
RELATED PARTY TRANSACTIONS	• Agreements with Affiliates • Calculation of Intercompany Transactions	• Reporting of Intercompany Transactions • Settlement of Intercompany Balances

The examiners relied upon information supplied by the Company's independent auditor, KPMG, LLP (KPMG), of San Francisco, California, for its audit covering the period from January 1, 2007, through December 31, 2007. Information relied upon mostly included KPMG's extensive testing of the internal controls of FFIC and other parent companies.

Our examination of AAIC also placed significant reliance upon the workpapers provided by the California DOI for its risk assessment examination of FFIC. Information relied upon included corporate governance assessment and the documentation, testing, assessments and conclusions that were explained or referenced in the California DOI's risk matrices for key activities.

Comments - Previous Examination

The previous financial examination of AAIC was conducted by the Missouri DIFP for the period ending December 31, 2003. Listed below are the comments, recommendations, and notes from the previous examination report, the Company's response, and the findings in the current examination.

Intercompany Transactions

Comment: It was stated that an amendment, effective January 1, 2003, to the Intercompany Reinsurance Agreement with FFIC was not filed with the Missouri DIFP for prior approval, as required by Section 382.195 RSMo (Transactions Within a Holding Company System). The Company was directed to file this amendment and ensure that all future agreements and amendments are filed with the Missouri DIFP on a timely basis.

Company's Response: The Company stated Section 382.195(3) RSMo requires prior notice to the Director for reinsurance agreements with affiliates "in which the reinsurance premium or change in the insurer's liabilities equals or exceeds five percent of the insurer's surplus as regards policyholders." The January 1, 2003 amendment to the Intercompany Reinsurance Agreement had no impact on the reinsurance premium or liabilities of AAIC. The only effect of the January 1, 2003 amendment was to change the pool participation percentages of two of the participating companies, FFIC and FFIC of Wisconsin. Since AAIC's participation percentage of 2.5% remained the same, prior notice under RSMo 382.195(3) was not required.

Current Findings: It was determined that the amendment referenced in the prior examination did not require prior approval from the Missouri DIFP. There were no amendments to intercompany agreements or intercompany reinsurance agreements during the examination period.

Intercompany Transactions

Comment: It was stated that there was a transfer of financial risk from Allianz of America, Inc. to AAIC resulting from the sale of overdue premiums and reinsurance recoverables between FFIC and Allianz of America, Inc. in 2002 and a subsequent settlement in 2003. The transfer of risk was stated to be a contradiction with the provision of the sales agreement between the two parties, which stated the sale was "without recourse." It was recommended that the Company should abide by the terms of all current and future intercompany sale agreements and account for the sale transactions in accordance with Statement of Statutory Principle (SSAP) No. 42 of the NAIC Accounting Practices and Procedures Manual.

Company's Response: The Company stated that it would abide by the terms of intercompany agreements and account for them per the appropriate accounting standards and practices.

Current Findings: There were no transactions involving the sale of overdue premiums or reinsurance recoverables between FFIC and Allianz of America, Inc. during the examination period.

Information Systems Controls

Comment: It was stated that the California DOI made recommendations for improving the Company's information controls for areas such as logical security, physical security and program changes. It was recommended that the Company should evaluate these recommendations and make appropriate changes to strengthen controls over its information systems.

Company's Response: The Company stated that it had implemented changes to strengthen its controls over information systems such as User Account Administration. The Company also stated that it began utilizing a Lotus Notes Database to request and retain all access change requests and termination requests, and managers were provided with a checklist for terminated employees that includes terminating user IDs.

Current Findings: All information systems services for American Auto are provided by FFIC employees through the use of hardware and software owned by FFIC. As part of its examination of FFIC, the California DOI employed a consultant to review FFIC's information systems controls. This consultant issued a report that did not disclose any significant deficiencies in the information system controls.

General Ledger Supporting Documentation

Comment: It was stated that the California DOI noted that the Company had a common practice of relying upon a sub-ledger balance as an acceptable form of supporting documentation without reconciling the sub-ledger balance to detailed documentation. The Company also used e-mails as supporting documentation, although it was a less common practice. It was recommended that the Company implement controls to ensure that general ledger accounts are reconciled to the system from which the source data resides.

Company's Response: The Company stated that it implemented stronger reconciliation processes during 2004. This included performing monthly source reconciliations, which reconcile direct system feeds to the general ledger with the related general ledger accounts. These source reconciliations are used as the support for the monthly general ledger account reconciliations. If a general ledger account balance is system supported but not covered through a source reconciliation, a summary or detailed system report is used.

Current Findings: Substantive testing of general ledger balances was limited in our examination, due to the risk assessment approach that was utilized. However, for the testing that was performed, the supporting documentation provided by the Company adequately supported the general ledger balances.

Reporting of Pooled Accounts

Comment: It was stated that the Company did not include two general ledger accounts as part of the pooled balance for the Asset line item for Premiums and Considerations. The Company reported the full balance of these general ledger accounts of the FFIC 2003 Annual Statement rather than allocating their pooled percentage to the companies participating in the Intercompany Reinsurance Agreement. It was recommended that the Company implement controls to ensure all accounts subject to pooling are properly pooled and appropriately allocated to each member.

Company's Response: The Company stated that during 2003, the Company implemented additional controls to the change control process requiring all changes, including the creation of new accounts, to be approved by a cross-functional group that reviews and discusses all inter-dependencies and implications of each change control request.

Current Findings: No problems were noted in our examination regarding the pooling of appropriate asset and liability accounts.

Aging of Premium Receivables

Comment: It was stated that the Company could not provide an aging detail on a policy-by-policy basis for all of the over ninety day components of the Premiums and Considerations asset line. Consequently, the examiners were unable to determine compliance with paragraph 7 of SSAP No. 6 (Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers), which addresses the determination of the due date of premium balances due to a company. It was recommended that the Company should implement procedures to ensure that over ninety day balances due are supported by the underlying policy level detail and ensure this detail documentation is available for review by auditors and regulators.

Company's Response: The Company stated that during 2004, it enhanced the Receivables Timeliness Facility (RTF) to include additional receivable systems as source support. RTF is an application for selecting various receivable aging reports generated from the majority of the Company's receivable systems, which is supported by the underlying policy level detail. The data is updated monthly and is available two weeks following the close.

Current Findings: The CPA firm, KPMG, LLP, tested the processes and controls for the RTF system, from which a premium receivable aging summary is produced. KPMG, LLP determined that the reports generated by the RTF system can be relied upon and that the resulting premium receivable aging reports are accurate. We relied upon KPMG's testing and conclusion and therefore, the aging of premium receivables was not tested further in our examination.

Reserves for Losses and Loss Adjustment Expenses

Comment: It was stated that the California DOI determined that the pooled reserves for loss and loss adjustment expenses (LAE), as of December 31, 2003, were deficient by $604,910,000. American Auto would be allocated 2.5%, or $15,122,750, of this deficiency based upon the terms of the Intercompany Reinsurance Agreement. It was recommended that the Company should review its reserving process to ensure that future reserve estimates are appropriate.

Company's Response: The Company stated that it had established policies and procedures around loss reserving as noted in the approved charter of FFIC's Reserve Committee.

Current Findings: Deficiencies in the reported loss and LAE reserves, as of December 31, 2007, were determined by the California DOI consulting actuary. Refer to Note 2 of the Notes to the Financial Statements section of this report for a complete description.

Annual Statement Presentation

Comment: It was stated that in several instances, the Company's Annual Statement presentation was incorrect, including the misclassification of its investment in the Allianz Cash Pool, LLC and the incorrect offsetting of the reinsurance premiums payable against reinsurance recoverables on paid losses. It was recommended that the Company implement procedures and controls to ensure its Annual Statement presentation is consistent with the relevant SSAPs and Annual Statement Instructions.

Company's Response: The Company stated that it implemented stronger reconciliation processes during 2004. This included performing monthly source reconciliations, which reconcile direct system feeds to the general ledger with the related general ledger accounts. These source reconciliations are used as the support for the monthly general ledger account reconciliations. If a general ledger account balance is system supported, but not covered through a source reconciliation, a summary or detailed system report is used.

Current Findings: No material errors were noted in the current examination regarding the classification of assets and liabilities in the correct Annual Statement lines.

HISTORY

General

American Auto was incorporated on December 14, 1911 under the laws of the State of Missouri and commenced business on January 1, 1912. The Company operates as a stock property and casualty insurer under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life).

In 1956, the Company was acquired by The American Insurance Company of Omaha, Nebraska. On December 31, 1963, The American Insurance Company was acquired by Fireman's Fund Insurance Company, which was ultimately owned by The Fund American Companies, Inc., of Greenwich, Connecticut. On January 2, 1991, Fireman's Fund Insurance Company and its subsidiaries were sold to Allianz of America, Inc. On December 1, 1995, The American Insurance Company sold its 100% ownership interest in AAIC and its subsidiary, Associated Indemnity Corporation, to Fireman's Fund Insurance Company.

Capital Stock

The Company's Articles of Incorporation allow for the issuance of 1,750,000 shares of common stock with a par value of \$2 per share. As of December 31, 2007, all 1,750,000 shares were issued and outstanding to Fireman's Fund Insurance Company for a total capital stock balance of \$3,500,000.

Dividends

AAIC paid a cash dividend of $15,700,000 to its parent, FFIC, during 2006. There were no other dividends declared or paid to stockholders during the examination period. Cash dividends were paid to policyholders, as follows: 2007 - $151,390, 2006 - $134,777, 2005 - $55,898, and 2004 - $99,004.

Management

The management of the Company is vested in a Board of Directors, which is appointed by the sole stockholder, FFIC. The Company's Bylaws specify that the Board of Directors shall consist of nine members. The Board of Directors elected and serving, as of December 31, 2007, were as follows:

Name	Address	Principal Occupation and Business Affiliation
David L. Conway	Santa Rosa, California	Senior Vice President and Chief Underwriting Officer
Bruce F. Friedberg	Novato, California	Senior Vice President and Chief Actuary
Louise Jordan [1]	Santa Rosa, California	Senior Vice President and Controller
Charles M. Kavitsky [1]	Mill Valley, California	President and Chief Executive Officer
Arthur E. Moossmann [1]	Tiburon, California	Senior Vice President, President of Specialty Business
Roger M. Nulton	Santa Rosa, California	Senior Vice President, President of Agribusiness
Jill E. Paterson	Tiburon, California	Executive Vice President and Chief Financial Officer
Cynthia L. Pevehouse [1]	Novato, California	Senior Vice President and General Counsel
Linda E. Wright [1]	Tiburon, California	Senior Vice President

[1] Resigned and replaced during 2008

Several new directors were appointed in 2008. These new directors elected and serving, as of December 31, 2008, are listed below:

Name	Address	Principal Occupation and Business Affiliation
Lori D. Fouche	San Anselmo, California	Senior Vice Pres., President of Commercial Insurance
Jeffery F. Johnson	San Anselmo, California	Vice President and Controller
Michael E. LaRocco	Sammamish, Washington	Chairman, President and Chief Executive Officer
Sally B. Narey	Larkspur, California	Senior Vice President and General Counsel
Paul M. Stachura	Greenbrae, California	Senior Vice President and Chief Claims Officer

Committees

The Articles of Incorporation and Bylaws do not require any committees, but the Bylaws do allow for committees to be appointed by the Board of Directors. An Executive Committee was in operation during the examination period for the primary purpose of managing the affairs of the Company. The members of the Executive Committee appointed and serving, as of December 31, 2007, were as follows: Charles M. Kavitsky (replaced by Michael E. LaRocco in May 2008), Jill E. Paterson, and Cynthia L. Pevehouse (replaced by Sally B. Narey in October 2008).

The parent companies, FFIC and Allianz of America, Inc., also have several committees that regularly review and approve transactions that may directly or indirectly affect the operations of American Auto. The actions of the following committees of FFIC affect American Auto's opertions: Audit Committee, Ethics and Policy Committee, Finance Committee, and the Reserving Committee. The Finance Committee of Allianz of America, Inc. also take actions that could affect the Company.

Officers

The officers elected by the Board of Directors and serving as of December 31, 2007, were as follows:

Officer	Position
Charles M. Kavitsky	Chairman, President and Chief Executive Officer
Jill E. Paterson	Executive Vice President and Chief Financial Officer
Cynthia L. Pevehouse	Senior Vice President, General Counsel and Secretary
Linda E. Wright	Senior Vice President and Treasurer
Louise Jordan	Senior Vice President and Controller

All officers were either replaced or given new duties in 2008. The currently elected officers, as of December 31, 2008, are listed below:

Officer	Position
Michael E. LaRocco	Chairman, President and Chief Executive Officer
Jill E. Paterson	Executive Vice President, CFO and Treasurer
Sally B. Narey	Senior Vice President, General Counsel and Secretary
Jeffery F. Johnson	Vice President and Controller

Conflict of Interest

The Company has a policy that requires all officers, directors, and key employees to complete a conflict of interest statement each year. The responses to the conflict of interest statements were reviewed for the examination period. No significant exceptions were noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws. There were no amendments or changes to the Articles of Incorporation or Bylaws during the period under examination.

The minutes of the Board of Directors' meetings, committee meetings, and shareholder meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

The Company executed an Agreement and Plan of Merger with Fireman's Fund Insurance Company of Missouri (FFIC-MO) on September 10, 2007, from which American Auto was the surviving entity. The closing date for the merger was November 1, 2007. The transfer of FFIC-MO's assets and liabilities to American Auto resulted in a net increase of $6.4 million to capital and surplus.

Surplus Debentures

AAIC had no surplus notes issued and outstanding, as of December 31, 2007.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by the direct parent, FFIC, on behalf of American Auto for each year of the examination period. FFIC is a California domiciled property and casualty insurance company that commenced business in 1864. FFIC has direct ownership or control of fifteen insurance companies.

The ultimate controlling entity for American Auto is Allianz SE, a German holding company. Allianz SE owns numerous insurance, reinsurance, and banking entities located around the world. The common stock of Allianz SE is publicly traded in Europe and is traded on the New York Stock Exchange through the use of Depository Receipts shares.

The Company has a subsidiary, Associated Indemnity Corporation, which is a California domiciled property and casualty insurer.

Organizational Chart

Below is an organizational chart that reflects the ownership of the Company and its subsidiary, as of December 31, 2007.

Allianz SE (Germany)

100%

Allianz of America, Inc. (Delaware)

100%

Allianz Global Risks US Insurance Company (California)

100%

Fireman's Fund Insurance Company (California)

100%

American Automobile Insurance Company (Missouri)

100%

Associated Indemnity Corporation (California)

Intercompany Transactions

The Company's intercompany agreements that were in effect, as of December 31, 2007, are outlined below.

1. **Type:** Investment Management Agreement

   Affiliates: Fireman's Fund Insurance Company, The American Insurance Company, National Surety Corporation, Associated Indemnity Corporation, Fireman's Fund Insurance Company of Ohio

   Effective: January 1, 1981

   Terms: FFIC will furnish investment management services to manage the invested assets of the other parties in the agreement. The services shall include the following: counsel and advice for the formulation of investment programs; investment advice and services for the investment portfolio; research and statistical data for the purchases and sales of investments; administrative, accounting and other services to manage investment affairs; pay and reimburse all other personnel or expenses necessary to provide the investment management services. FFIC shall determine the costs incurred to provide the investment management services and the costs shall be allocated to each party based upon the value of the bonds and stocks reported on the respective Annual Statement of each insurer.

[Note: FFIC and Allianz of America, Inc. (AZOA) have an Investment Service Agreement, effective January 2, 1991, in which AZOA provides investment management services for FFIC and subsidiaries (including AAIC). Thus, AZOA is the actual entity that manages American Auto's investment portfolio].

2. **Type:** Tax Reimbursement Agreement

   Affiliates: Allianz of America, Inc., Fireman's Fund Insurance Company, and various insurance and non-insurance subsidiaries of FFIC

   Effective: December 31, 1991 (amended December 17, 1999)

   Terms: AZOA will annually file a consolidated federal income tax return on behalf of all members of the agreement. Each entity's share of the consolidated tax liability or refund shall be calculated as the amount that would have been incurred if each entity would have filed a separate federal tax return. The settlement of any estimated tax payments due between AZOA and each member shall be made on the same date that such payments are due to the Internal Revenue Service. However, the settlements of amounts due for the final federal tax return shall be made within 90 days after the filing of the tax return with the Internal Revenue Service.

3. **Type:** Limited Liability Company Operating Agreement

   Affiliates: Fireman's Fund Insurance Company and several other affiliated insurers

   Effective: January 1, 1996

   Terms: The parties agree to form Allianz Cash Pool, LLC, which will invest the collective capital contributions of the member entities. The capital contributions shall be invested in either U.S. government debt obligations, corporate debt obligations, or accounts, deposits or obligations of banks or savings and loan associations that are federally insured. The purpose of Allianz Cash Pool, LLC is to maximize the returns of the pooled short-term assets of the member entities. The pooled assets are generally invested in discount notes with maturities of thirty days or less. As of December 31, 2007, American Auto had an ownership of 0.14% of the total holdings of Allianz Cash Pool, LLC.

In addition to the above listed agreements, the Company is a party to an Intercompany Reinsurance Agreement, effective January 1, 1999, with Fireman's Fund Insurance Company and several other affiliated insurers. The primary purpose of the agreement is to pool the premiums, losses, and underwriting expenses of the participants to the agreement. The agreement also states that FFIC will provide services to conduct all underwriting and business operations of American Auto and the other affiliated insurers. There are no direct fees that are billed by FFIC for these management services. Rather, each participating subsidiary of FFIC is allocated its pooled percentage of the general and administrative expenses incurred by FFIC in the provision of these management services. Additional information on the Intercompany Reinsurance Agreement is described in the Reinsurance – Pooling section of this report.

Intercompany Payments

Fees and other payments to affiliates, pursuant to intercompany agreements, are described as follows. Pursuant to the Investment Management Agreement, American Auto paid the following amounts to FFIC: 2004 - $428,486, 2005 - $402,650, 2006 - $327,103, 2007 - $377,558. The Company did not make any payments to Allianz of America, Inc. for the Tax Reimbursement Agreement, since AAIC had no federal income tax liability for the 2004 to 2007 tax years. No direct fees are required to be paid for the Company's membership in the Limited Liability Company Operating Agreement for Allianz Cash Pool, LLC.

On December 14, 2006, AAIC paid a dividend of $15,700,000 to FFIC. No other dividends were paid to FFIC during the examination period.

Net payments to FFIC for the Intercompany Reinsurance Agreement consist of numerous components (premiums, losses, expenses, etc.) settled on a monthly basis, which cannot be practically summarized for this report. However, it should be noted that American Auto does not pay any fees or charges to FFIC in addition to the pooled transaction settlements. A summary of premiums ceded to FFIC and premiums assumed from FFIC is included in the Reinsurance section of this report.

FIDELITY BOND AND OTHER INSURANCE

The parent company, Allianz of America, Inc., has a fidelity bond that provides coverage for all of its subsidiaries, including American Auto. The fidelity bond covers losses resulting from dishonest or fraudulent acts of employees. The bond has a liability limit of $14,000,000 with a $1,000,000 deductible, which meets the minimum coverage recommended by the NAIC. Allianz of America, Inc. also has several insurance policies that provide coverage for subsidiary companies. The risks insured by these additional policies are as follows: commercial property, commercial general liability, business auto, electronic and computer crime, worker's compensation and employers' liability, directors and officers' liability, and umbrella liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

AAIC does not have any direct employees and thus, does not directly incur or accrue any expenses for employee benefits. Most of the Company's daily business operations are conducted by the employees of the parent company, Fireman's Fund Insurance Company. An allocated portion of the payroll and benefit costs of FFIC employees are paid by AAIC pursuant to an Intercompany Reinsurance Agreement, which is described in the Intercompany Transactions and Reinsurance – Pooling sections of this report.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP, as of December 31, 2007, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098 RSMo (Securities to be Deposited). The funds on deposit as of December 31, 2007, were as follows:

Type of Security	Par Value	Fair Value	Statement Value
U.S. Treasury Notes	\$3,896,000	\$4,319,844	\$4,253,254

Deposits with Other States

The Company also has funds on deposit with other states. Those funds on deposit, as of December 31, 2007, were as follows:

State	Type of Security	Par Value	Fair Value	Statement Value
Arizona	U.S. Treasury Notes	\$ 832,000	\$ 841,360	\$ 834,758
California	U.S. Treasury Bonds, Notes and Corporate Bonds	14,563,000	15,032,740	14,953,590
Delaware	U.S. Treasury Notes	110,000	111,238	110,365
Georgia	U.S. Treasury Notes	205,000	207,306	205,680
Idaho	U.S. Treasury Bonds, Notes	83,000	87,852	85,395
Louisiana	U.S. Treasury Notes	74,000	76,700	75,329
Massachusetts	U.S. Treasury Bonds, Notes	150,000	172,086	163,821
Nevada	U.S. Treasury Notes	100,000	104,570	103,461
New Mexico	U.S. Treasury Notes	350,000	353,938	351,160
North Carolina	U.S. Treasury Bonds, Notes	302,000	320,495	312,185
Ohio	U.S. Treasury Notes	100,000	101,125	100,331
Oklahoma	U.S. Treasury Notes	300,000	303,375	300,994
Oregon	U.S. Treasury Notes	540,000	549,294	542,689
Tennessee	U.S. Treasury Notes	750,000	758,438	752,486
Virginia	U.S. Treasury Notes	520,000	525,447	521,698
Total		\$18,979,000	\$19,545,964	\$19,413,942

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

American Auto was incorporated on December 14, 1911 and commenced business on January 1, 1912. The Company is licensed and writes business in all fifty states and the District of Columbia. The Company is licensed as a property and casualty insurer by the Missouri DIFP under Chapter 379 RSMo (Insurance Other Than Life). The states with the largest percentage of 2007 direct written premiums are as follows: California – 18%, New York – 13%, and Florida – 10%.

The major lines of business, based upon 2007 direct and net written premiums, are listed in the table below. It should be noted that American Auto cedes 100% of its direct business to its parent, Fireman's Fund Insurance Company and assumes back a pooled share, which is the reason for the large variances in the mix of business on a direct basis versus a net basis.

Line of Business	Direct Premiums	Net Premiums
Commercial Multiple Peril	30.2%	20.2%
Homeowners Multiple Peril	21.0%	14.5%
Other Liability – Occurrence	17.4%	14.6%
Workers' Compensation	8.5%	3.5%
Inland Marine	4.1%	10.7%
Allied Lines	0.1%	14.6%
All Other	18.8%	22.0%
Total	100.0%	100.0%

The parent, FFIC, and its insurance subsidiaries (which include American Auto) are marketed as one company on a group basis, even though there are numerous legal entities. At the end of 2007, the main business segments of the FFIC group of companies were Commercial, Personal, and Specialty. A restructuring occurred in 2008 and the current business segments are Commercial, Personal, and Agribusiness. The former Specialty segment was split up with some components merged into the Commercial segment and the remaining components comprising the new Agribusiness segment.

The Commercial business unit operates in the following industry sectors: real estate, entertainment, professional liability, food and agriculture, hospitality, manufacturing, and business and consumer services. The Commercial products include property, auto, general liability, small business package, worker's compensation, excess and umbrella, professional liability, film surety, and inland marine. The Personal lines unit targets high net worth individuals with the following products: homeowners, auto, inland marine, and excess liability. The Agribusiness segment includes participation in the federal government's Multi Peril Crop Insurance (MPCI) program, crop hail, and crop specialty products. The FFIC group uses approximately 2,650 agents and brokers to distribute its products.

The Company's business has shown steady growth during the exam period and subsequent periods, as shown in the table below:

Year	Net Premiums Written	Surplus as Regards Policyholders	Ratio of Premiums to Surplus
2004	$105,257,017	$124,404,188	0.85
2005	107,365,592	145,629,969	0.74
2006	114,647,542	161,922,961	0.71
2007	116,232,492	196,678,205	0.59
2008	119,740,382	212,575,701	0.56

American Auto reported underwriting gains for each year in the period from 2004 to 2008. The profitable underwriting results plus substantial net investment income was responsible for most of the large increases in surplus shown in the above table. Another contributing factor was the large balance of loss carry forwards that were utilized each year in the federal income tax calculations. American Auto did not pay any federal income taxes during the examination period due to the use of the loss carry forwards.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The Missouri DIFP has a market conduct staff that performs a review of these issues and generates a market conduct report. The Missouri DIFP conducted a full-scope market conduct examination of American Auto for the period from January 1, 2004 to December 31, 2004 and issued a report dated April 24, 2006. Other states also performed market conduct examinations of American Auto. The State of North Carolina conducted a full-scope market conduct examination for the period from January 1, 2005 to October 31, 2005 and issued a report dated March 13, 2007. The State of Florida conducted a limited scope examination targeting the reporting of residential policy information and issued a report in April 2007. These market conduct reports were reviewed and no problems or issues were noted in any of the reports that would have a material impact on the Company's financial condition.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	2004	2005	2006	2007
Direct Business	$401,721,622	$427,859,771	$438,657,996	$442,441,820
Reinsurance Assumed:				
Affiliates	105,257,017	107,365,592	114,647,542	116,232,492
Non-affiliates	0	0	0	0
Reinsurance Ceded:				
Affiliates	(401,721,622)	(427,859,771)	(438,657,996)	(442,441,820)
Non-affiliates	0	0	0	0
Net Premiums Written	**$105,257,017**	**$107,365,592**	**$114,647,542**	**$116,232,492**

Pooling

AAIC, along with Fireman's Fund Insurance Company and seven other insurance subsidiaries of FFIC, is a party to an Intercompany Reinsurance Agreement, effective January 1, 1999. Under the terms and conditions of this agreement, each subsidiary or pool member is required to cede 100% of its direct and assumed business to its parent, FFIC, which is the lead insurer in the intercompany pool. Under this pooling agreement, the participants share all underwriting and insurance business and the related assets, liabilities, income and expenses according to each insurer's respective participation percentage. Pooled accounts do not include investment operations, dividends to stockholders, or federal income tax liabilities.

In addition to the parties to the Intercompany Reinsurance Agreement, other insurance subsidiaries of Fireman's Fund Insurance Company cede 100% of their direct and assumed business to the pool. Under separate reinsurance agreements, the following insurance subsidiaries of FFIC cede 100% of their direct and assumed business to the pool and receive a zero participation percentage in the net retained pooled business: Fireman's Fund County Mutual Insurance Company, Fireman's Fund Indemnity Corporation, Fireman's Fund Insurance Company of Hawaii, and Fireman's Fund Insurance Company of Louisiana.

FFIC is then responsible for securing the necessary external reinsurance on behalf of the entire pooled business and redistributing the net retained pooled business to each participant in accordance with the percentages stated within the Intercompany Reinsurance Agreement. As of December 31, 2007, the following members or participants retained the following percentage of the net retained pooled business:

Participating Company	Pooling Percentage
Fireman's Fund Insurance Company	75.0%
The American Insurance Company	11.5%
National Surety Corporation	4.0%
Interstate Fire & Casualty Company	3.5%
American Automobile Insurance Company	**2.5%**
Chicago Insurance Company	1.5%
Associated Indemnity Corporation	1.0%
Interstate Indemnity Company	0.8%
Fireman's Fund Insurance Company of Ohio	0.2%
Total	100.0%

On January 1, 2009, the Intercompany Reinsurance Agreement was amended to reduce the pooling participation percentage for Interstate Indemnity Company (renamed AGCS Marine Insurance Company) from 0.8% to 0.0%. FFIC's pooling percentage increased from 75.0% to 75.8%, in order to absorb the 0.8% participation that had previously been allocated to the former Interstate Indemnity Company. There were no changes to the participation percentage of AAIC or any other participating insurers.

Assumed and Ceded

AAIC assumes and cedes premium to its parent, FFIC, pursuant to the above described Intercompany Reinsurance Agreement. The Company does not have any other assumed or ceded reinsurance agreements currently in effect.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

ACCOUNTS AND RECORDS

The CPA firm, KPMG, LLP, of San Francisco, California issued audited statutory financial statements of the Company for all years in the examination period.

The actuarial opinion regarding the Company's reserves for losses and loss adjustment expenses (LAE) was issued by David R. Heyman, FCAS, MAAA, for all years in the examination period. Mr. Heyman is an employee of FFIC.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of American Automobile Insurance Company for the period ending December 31, 2007. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets
as of December 31, 2007

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$285,513,680	$ 0	$285,513,680
Common Stocks (**Note 1**)	63,765,171	0	63,765,171
Cash and Short-Term Investments	6	0	6
Other Invested Assets	2,016,057	0	2,016,057
Receivables for Securities	298,029	0	298,029
Investment Income Due and Accrued	2,844,517	0	2,844,517
Uncollected Premiums and Agents' Balances	18,073,016	1,989,710	16,083,306
Deferred Premiums	12,444,313	44,482	12,399,831
Accrued Retrospective Premiums	55,273	3,497	51,776
Amounts Recoverable from Reinsurers	19,055,346	0	19,055,346
Net Deferred Tax Asset	35,661,746	21,748,385	13,913,361
Guaranty Funds Receivable	183,391	0	183,391
Receivable from Parent, Sub., and Affiliates	22,497,716	0	22,497,716
Agg. Write-In Assets: Sundry Assets	836,337	0	836,337
TOTAL ASSETS	**$463,244,598**	**$23,786,074**	**$439,458,524**

Liabilities, Surplus and Other Funds
as of December 31, 2007

Losses (**Note 2**)	$142,729,196
Reinsurance Payable on Paid Losses and LAE	5,254,601
Loss Adjustment Expenses	17,552,159
Commissions Payable	3,371,689
Other Expenses	2,243,178
Taxes, Licenses and Fees	1,086,889
Federal Income Taxes Payable	(2)
Unearned Premiums	49,075,330
Advance Premium	35,949
Dividends Payable to Policyholders	48,096
Ceded Reinsurance Premiums Payable	43,579,581
Payable for Securities	918,986
Aggregate Write-In Liabilities:	
Sundry Liabilities	11,667
Required Statutory Reserves (**Note 3**)	5,464,000
TOTAL LIABILITIES	**$271,371,319**
Common Capital Stock	3,500,000
Gross Paid In and Contributed Surplus	89,524,996
Unassigned Funds (Surplus)	75,062,209
Capital and Surplus	**$168,087,205**
TOTAL LIABILITIES AND SURPLUS	**$439,458,524**

Summary of Operations
For the Year Ended December 31, 2007

Premium Earned	**$116,200,447**
DEDUCTIONS:	
Losses Incurred	61,153,252
Loss Expenses Incurred	10,854,334
Other Underwriting Expenses Incurred	35,922,826
Total Underwriting Deductions	**$107,930,412**
Net Underwriting Gain	**$ 8,270,035**
Net Investment Income Earned	14,024,845
Net Realized Capital Gains	583,843
Net Investment Gain	**$ 14,608,688**
Other Income	(132,272)
Dividends to Policyholders	150,714
Federal Income Taxes Incurred	9
Net Income	**$ 22,595,728**
CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2006	$161,922,961
Net Income	22,595,728
Change in Net Unrealized Capital Gains or (Losses)	6,404,685
Change in Net Unrealized Foreign Exchange Capital Gain	818
Change in Net Deferred Income Tax	(7,911,048)
Change in Non-Admitted Assets	7,291,946
Surplus Adjustment Paid In	3,999,996
Aggregate Write-Ins for Gains and Losses in Surplus	2,373,119
Examination Changes	(28,591,000)
Surplus as Regards Policyholders, December 31, 2007	**$168,087,205**

Notes to the Financial Statements

Note 1 – Common Stocks **$63,765,171**

An examination change was made to reduce the valuation for the Company's subsidiary, Associated Indemnity Corporation, by $8.1 million for loss and LAE reserve adjustments that are explained in Note 2.

Note 2 – Losses **$142,729,196**

The California DOI's examination of FFIC included examination changes to the pooled reserves for losses and LAE, which affect American Auto and its subsidiary, Associated Indemnity Corporation. It was determined by the California DOI's consulting actuary that the total pooled loss and LAE reserves were deficient by $602.2 million. The components of the identified deficiency were as follows: asbestos and environmental (A&E) liabilities – $388.6 million; adjusting and other expenses – $155.6 million; other miscellaneous items – $58.0 million. American Auto's share of the total pooled deficiency of $602.2 million is $15.1 million, based upon the Company's 2.5% pooling percentage. Associated Indemnity Corporation has a 1.0% pooling percentage, resulting in a $6.0 million allocation of the reserve deficiency.

The California DOI's examination of FFIC also reported that the pooled companies did not report additional reserves for losses and LAE that are required by California Insurance Code (CIC) Section 11558. This statute is applicable to all insurers licensed in the State of California, which includes American Auto and Associated Indemnity Corporation. The additional reserve amount was calculated to be $5.5 million for American Auto and $2.1 million for Associated Indemnity. Examination changes were made for these statutorily required reserves.

The examination changes discussed in the two preceding paragraphs were reported in three separate lines of the Annual Statement. The net adjustments for Associated Indemnity Corporation, totaling $8.1 million ($6.0 million reserve deficiency plus $2.1 million required statutory reserves), were included as a reduction to the Company's investment in subsidiary in the Common Stocks line. The $15.1 million reserve deficiency allocated to American Auto was included on the Losses line. The $5.5 million required statutory reserves for American Auto were reported on the Aggregate Write-In Liabilities line. The net impact of these examination changes was a $28.6 million decrease to capital and surplus, as of December 31, 2007.

Note 3 – Aggregate Write-In Liabilities **$5,464,000**

An examination change of $5.5 million was made to record additional loss and LAE reserves that are required by the California Insurance Code, as explained in Note 2.

Examination Changes

Capital and Surplus Per Company, December 31, 2007:	
Common Capital Stock	$ 3,500,000
Gross Paid In and Contributed Surplus	89,524,996
Unassigned Funds (Surplus)	103,653,209
Total Capital and Surplus Per Company	**$196,678,205**
Examination Changes:	
Decrease Common Stocks (**Note 1**)	($ 8,071,000)
Increase Reserves for Losses (**Note 2**)	(15,056,000)
Increase Aggregate Write-In Liabilities (**Note 3**)	(5,464,000)
Total Examination Changes	**($ 28,591,000)**
Capital and Surplus Per Examination, December 31, 2007:	
Common Capital Stock	$ 3,500,000
Gross Paid-in and Contributed Surplus	89,524,996
Unassigned Funds (Surplus)	75,062,209
Total Capital and Surplus Per Examination	**$168,087,205**

General Comments and/or Recommendations

Reserves for Losses and Loss Adjustment Expenses (page 23)

The California DOI's consulting actuary determined (in the examination of FFIC) that total pooled reserves were deficient by $602 million. After applying the pooling percentages, the reserve deficiency was $15.1 million for American Auto and $6.0 million for American Auto's subsidiary, Associated Indemnity Corporation.

Management of FFIC has reported a consulting actuary has been retained to perform a complete analysis of FFIC's pooled reserves and reserving methodologies for asbestos and environmental liabilities, which was the largest component of the reserve deficiency. FFIC's consulting actuary is scheduled to be completed with the review of A&E reserves by the first quarter of 2010. The Company should consider the results of this consulting actuary analysis, when available, in conjunction with the methodologies used by the California DOI's consulting actuary to determine the improvements needed in the reserving processes to avoid deficiencies in the future. A&E reserves should be increased in 2010 for any deficiencies that may be identified.

Required Statutory Reserves (page 23)

The Company and its subsidiary did not report additional reserves for losses and LAE that are required by California Insurance Code (CIC) Section 11558 for licensed insurers. Reserves of $5.5 million for American Auto and $2.1 million for its subsidiary, Associated Indemnity Corporation, should have been recorded, as of December 31, 2007. The Company should ensure that these required statutory reserves are recorded in the future.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of American Automobile Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Bernie Troop, CFE, examiner for the Missouri DIFP, participated in this examination.

VERIFICATION

State of Missouri)
)
County of Cole)

I, Tim L. Tunks, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of American Automobile Insurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Tim L. Tunks

Tim L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 23rd day of July, 2009.

My commission expires: February 10, 2013 Tammy S. Rodieck
Notary Public

TAMMY S. RODIECK
MY COMMISSION EXPIRES
February 10, 2013
NOTARY SEAL
#09751697
COLE COUNTY
NOTARY PUBLIC, STATE OF MISSOURI

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Mark A. Nance, CPA, CFE
Audit Manager
Missouri DIFP

Fireman's Fund

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Novato, CA 94998
415.899.2000
www.firemansfund.com

September 17, 2009

Mr. Frederick G. Hesse
Chief Financial Examiner & Acting Division Director
State of Missouri
Division of Insurance Company Regulation
301 West High Street, Room 530
Jefferson City, MO 65102

RECEIVED
SEP 18 2009
INSURANCE SOLVENCY & COMPANY REGULATION

RE: American Automobile Insurance Company

Dear Mr. Hesse,

The Company has deemed that the current Report of Examination of the American Automobile Insurance Company is acceptable in its present form, and the Company wishes to place said report on official file. The Company requests the response letter be included with the report as a public document.

The following is a written response to the General Comments and/or Recommendations discovered during the January 1, 2004 through December 31, 2007 examination of American Automobile Insurance Company as identified in the Missouri Department of Insurance Report of Examination.

1) General Comments and/or Recommendations - Reserves for Losses and Loss Adjustment Expenses
The California DOI's consulting actuary determined (in the examination of FFIC - *Fireman's Fund Insurance Company)* that total pooled reserves were deficient by $602 million. After applying the pooling percentages, the reserve deficiency was $15.1 million for American Auto and $6.0 million for American Auto's subsidiary, Associated Indemnity Corporation.

Management of FFIC has reported a consulting actuary has been retained to perform a complete analysis of FFIC's pooled reserves and reserving methodologies for asbestos and environmental liabilities, which was the largest component of the reserve deficiency. FFIC's consulting actuary is scheduled to be completed with the review of A&E reserves by the first quarter of 2010. The Company should consider the results of this consulting actuary analysis, when available, in conjunction with the methodologies used by the California DOI's consulting actuary to determine the improvements needed in the reserving processes to avoid deficiencies in the future. A&E reserves should be increased in 2010 for any deficiencies that may be identified.

Company Response: *The examination report reflects an increase of $21.1 million to loss and loss adjustment expense (LAE) reserves, as noted above ($15.1 million for American Auto and $6.0 million for American Auto's subsidiary, Associated Indemnity Corporation) resulting from the actuarial analysis performed by the California Department of Insurance. The Company's liabilities for unpaid losses and loss adjustment expenses are based on and recorded at management's best estimate in accordance with SSAP No. 55. The Company's management believes that the carried loss and LAE reserves as of December 31, 2007 represented a reasonable provision for current claims, even though claims and claim expense reserves are based on long-range projections subject to uncertainty. Uncertainty regarding reserves of a given accident year, is gradually reduced as new information emerges each succeeding year, allowing more reliable re-evaluations of reserves.*

2) General Comments and/or Recommendations - Required Statutory Reserves

The Company and its subsidiary did not report additional reserves for losses and LAE that are required by California Insurance Code (CIC) Section 11558 for licensed insurers. Reserves of $5.5 million for American Auto and $2.1 million for its subsidiary, Associated Indemnity Corporation, should have been recorded, as of December 31, 2007. The Company should ensure that these required statutory reserves are recorded in the future

Company Response: *The Company acknowledges it is subject to California Insurance Code Section 11558. The Company is reviewing the appropriate steps necessary to be in compliance.*

Sincerely,

Jeffery Johnson

Vice President and Controller

Fireman's Fund Insurance Company

Cc: Ms. Tammy Rodieck